

Statement of
The Honorable John Hoeven
Governor of North Dakota

before the

Committee on Agriculture
Subcommittee on Conservation, Credit, Rural Development
and Research
U.S. House of Representatives

on

Rural Development Programs and the 2002 Farm Bill

on behalf of

The National Governors Association

June 26, 2001

Good morning, Mr. Chairman and members of the subcommittee. Thank you for inviting me here to testify. I am John Hoeven, Governor of the State of North Dakota, and I am here today representing the National Governors Association where I currently serve as a member of the Committee on Natural Resources. I want to discuss rural development policy and its importance to North Dakota and to our nation's Governors.

The Governors place a very high priority on maintaining family-based agriculture. Keeping families on farms is critically important to the economies of our states. We must support traditional agriculture, but income from non-traditional sources is an increasingly important factor in farm income. The ability to participate in value-added agriculture processing and niche marketing is essential to keeping a farming operation viable, and thus sustaining the rural economy.

The economic well being of all our citizens depends on a healthy rural economy. However, rural communities are faced with many diverse and complex economic challenges. Many rural Americans have been left behind while other Americans are benefiting from significant advancements in the quality of their economic and social lives. We, as a nation, pay very high economic and social costs when a large segment of the labor force is left behind.

To effectively address the many needs of our nation's rural communities, we recommend the following: increased flexibility for states in implementing and targeting federal funds, access to more effective and adaptable credit

programs, improved coordination of federal and state rural development services, and rural access to technology in order to provide greater opportunities for rural economies to compete in local, state, and global markets.

Community Development Block Grants to States

The single best allocation to states to assist in rural development projects are discretionary block grants that provide states the flexibility to target the use of funds where they can be most effective. Federal formula funding often overlooks unique needs and infrastructure development that may be crucial to community and business development.

North Dakota receives approximately \$6 million in Community Development Block Grants each year. Roughly half of the money is allocated to eight regional councils within the state for local infrastructure and technical assistance needs. The remaining funds are utilized on a state level and are targeted to business creation that generates wealth, jobs and opportunities in rural North Dakota. The funding can help underwrite infrastructure costs that might otherwise derail worthwhile projects such as an industrial park created to bring new businesses and value-added processing to a rural community. The block grants allow the state to effectively target the funds to the priority needs that vary from region to region. In my opinion, discretionary block grant funding is the most effective program we have and every effort should be made to increase funding in this area.

Access to Credit

Access to affordable credit through interest buy-downs, loan guarantees, and direct loans is another key aspect of a comprehensive rural development strategy. Economic development progress in rural areas depends on a stable source of credit that meets the needs of a new generation of producers working with rural communities to diversify their economies.

Three categories of credit programs are vital to the enhancement of our rural economies:

I. Credit to assist beginning farmers and ranchers.

Beginning farmer credit programs ensure that young producers have access to the capital necessary for them to purchase land and equipment. These programs help stabilize rural communities by making it possible for families to stay on—or create!—their family farm, the foundation of our rural economies.

The beginning farmer loan program should be expanded and the guaranteed loan program's qualification requirements and loan limits should be reviewed to ensure they meet critical needs for credit at reasonable rates.

II. Credit to help expand existing farm and ranch operations.

Federal credit assistance is needed to help our farmers and ranchers expand their operations and gain the benefits of economies of scale. Two such examples in my state are family and cooperatively owned dairy and livestock feeding operations. These operations represent value-added agriculture in its most basic form. By turning grain and forage into milk and meat, these operations change raw commodities into higher valued products.

Unfortunately, USDA funds are currently restricted from participating in feeding operations because they are classified as production agriculture. The credit programs should be expanded to support these types of wealth creation ventures.

III. Credit programs to help promote value-added agricultural processing ventures.

Finally, credit guarantee programs, interest assistance, and direct loans are important tools for encouraging independent family farmers to invest in value-added agricultural processing ventures. Those ventures give producers the ability to greatly enhance the economic position of their commodity producing farm operations through vertical integration.

North Dakota has successfully utilized the USDA Rural Development Business and Industry loan guaranty program. The B&I guaranty program has enabled our banks to provide financing for business ventures across the state. Currently, value-added companies are converting durum and wheat into pasta and flour, processing livestock into retail packaged meat cuts and creating specialty crop marketing cooperatives, all with the B&I program helping to mitigate the risk for the financial institution.

North Dakota also works to provide rural economic development assistance through the state owned Bank of North Dakota. In partnership with federal rural development efforts, our one-of-a-kind state-owned institution offers loans to beginning farmers, and provides credit guarantees and interest assistance for value added agricultural processing investments. These programs are greatly enhanced by the availability of ample and flexible

federal credit programs. This state/federal partnership can serve as an example of how the other rural development efforts can effectively function.

While effective, current federal programs must offer a greater degree of flexibility and recognition of unique state situations. Credit support limits should be raised in recognition of larger capital requirements of today's businesses. For example, in North Dakota we have found the USDA Business and Industry assistance has higher limits than Small Business Administration guarantees and thus are more effective with larger capital projects.

Program Coordination

I want to encourage the federal government to consolidate and coordinated the individual federal rural development programs into fewer, more flexible programs to provide states with development grants, loans, research grants, and technology transfer support for rural development.

While specific programs – such as the infrastructure programs of the USDA Rural Development or the business assistance programs of the U.S. Department of Commerce – are available to rural communities, they have not been sufficiently coordinated, nor has there been a sustained commitment to either long-term funding or to making program assistance available to specific communities over time.

Flexibility is crucial because states are better positioned to recognize a threatened community within their borders, and they are also more precisely

equipped to target resources efficiently and effectively to address local needs.

The NGA urges you to acknowledge and utilize an existing mechanism that was established for the purpose of coordination of programs. In 1990, NGA joined with USDA to establish what has become known as the National Rural Development Partnership (NRDP). The NRDP was established to help rural community leaders, government policy makers, and agency program administrators coordinate their efforts to address rural community needs. A major element of the partnership is the creation of state rural development councils (SRDCs), which are collaborative bodies consisting of federal, state, tribal and local government officials plus representatives from the private sector.

The SRDCs were designed to improve the employment opportunities, incomes and well being of rural Americans by strengthening their capacity to compete in the national and international economy. Forty states including North Dakota have established Rural Development Councils, which seek to identify the rural needs within their respective states and to coordinate the broad range of public and private resources to respond to those needs. Individual Governors have called on the councils in their states to support federal and state initiatives.

Technology

The barriers to instant information and access to technology remains high for rural communities. According to a Department of Commerce 1999 report, people living in rural areas lag behind other Americans in access to high-

speed Internet connections necessary to stay in step with the rest of the nation, and to access the opportunities created by the new economy.

Although DOC estimates that 91% of all American households will be online by 2005, the quality of that access will continue to be unequal for rural areas. While 65% of US cities enjoy cable or DSL service, less than 5% of towns with fewer than 10,000 people have access to either high-speed DSL or cable service. These high-speed connections provide Internet access up to 100 times faster than those available over ordinary phone lines, the next generation medium for distance learning, telemedicine, and vital economic development resources, and rural America deserves equal access to them.

The Internet is also an important tool for economic empowerment. Technology access is essential for participation in the digital economy. Investments in rural technology infrastructures will help rural areas overcome the two major barriers to economic growth: distance from markets and small economies of scale.

North Dakota has developed a statewide broadband Internet access initiative. Like rural electrification, rural telephone exchanges, and rural water development, the federal government has a responsibility to ensure that people outside of urban areas have access to the tools of a modern economy. We have received federal assistance through the e-rate subsidy financed through the universal access fund. This program needs to be continued. We encourage Congress to ensure that rural America keeps pace with the rest of the country in technology advancements. Development of world-class

technology education and access will enhance the entrepreneurial opportunities in rural areas and will ensure that all of America enjoys the benefits of the information economy.

Conclusion

Greater state discretion in federal program management will make rural development efforts more strategic, responsive and beneficial. Direct block grant funding would help reduce federal bureaucracy while providing states with the greatest opportunity to meaningfully move rural development forward in America. Enhanced credit programs and better coordination between federal and state government will support capital formation needs for farmers, ranchers, and rural businesses. Federal help to fund information technology will ensure that there is no “digital divide”. A flexible, coordinated approach between federal programs and state government will help ensure that rural and urban America grow together as we move into the 21st century.